



Annual Report

Year Ended June 30, 2005

Our Authority

The Office of the Auditor General is a legislative agency under the direction of the Joint Legislative Audit Committee. The Office provides information to the Legislature and various other governmental entities, which assists them in overseeing operations, improving their financial management and effectiveness, and giving the public a measure of accountability.

Our Mission

To independently provide the Legislature, government decision-makers, and the public with impartial, relevant information, specific recommendations, and technical assistance to improve state and local government operations.

Our Vision

To serve as catalysts for improving the quality and accountability of government in Arizona.



2005

Year Ended June 30, 2005

A Message from the Auditor General

We live in a world of change. How our Office responds to that change is an important factor in continuing to meet our vision of making a positive impact on government operations and our responsibilities for improving government accountability.

Two examples of how we respond to change include our recently established Information Technology audit team, and our emerging issues project. The IT audit team was established to respond to the changing environment of government operations transacted in the electronic and Web-based world. Our emerging issues project was begun to research, inform, monitor, and prepare for the variety of changes that impact our Office and our auditees. Our objective is to determine how to address the most critical



Debra K. Davenport, Auditor General

changes occurring in the audit, accounting, and information technology environments.

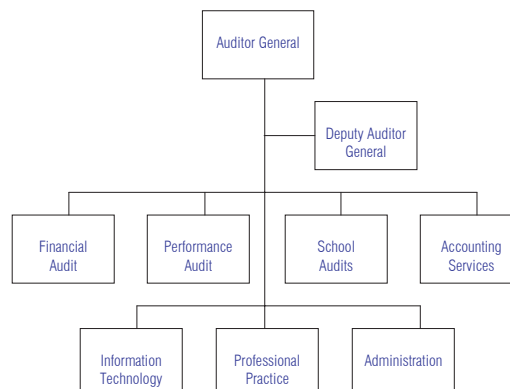
This annual report describes the results of our activities for fiscal year 2005. It also describes our accomplishments and efforts to improve government accountability, which ultimately demonstrate our success in addressing change.

Debbie Davenport

Auditor General Responsibilities and Activities

The Office has audit and oversight responsibility for state agencies, universities, counties, community colleges, and school districts. We also complete specific research

and investigative projects at the Legislature's request. The Office's responsibilities and activities detailed below are carried out by four operating and three support divisions.



Financial and compliance audits

- The State and its agencies
- Universities
- Counties
- Community college districts

Performance audits and program evaluations

- State agencies and programs
- School districts

Special audits, reviews, and investigations

- State agencies
- Certain political subdivisions

Uniform accounting systems

- School districts
- Counties
- Charter schools
- Community college districts

Uniform expenditure reporting system

- Most political subdivisions

Auditor General Issued More Than 200 Reports

The Office issued 218 reports in fiscal year 2005, providing the Legislature, state and local governments, and the public with reliable, valuable information. These reports communicate the results of our audits and reviews, broadly summarized in three categories as follows:

Performance audits, evaluations, studies, and reviews—These reports focus on determining how effectively, efficiently, and economically state agencies and school districts conduct business. For example, sunset audits help the Legislature determine whether to continue or terminate an agency. Our follow-up letters tell the Legislature how well state agencies and school districts are implementing our recommendations.

Financial audits and related letter reports—These reports focus on the accuracy of financial data, effectiveness of internal controls, and compliance with required accounting practices of the State, its agencies, and local governments. Also, we

issue letter reports that provide recommendations to improve financial practices.

Compliance reports and letters—These reports focus on whether the State, its agencies, and local governments are complying with laws and regulations for various administrative and reporting requirements. Various federal and state agencies use these reports to monitor state and local governments' activities. For example, single audits satisfy federal audit requirements, and are necessary to receive continued federal funding.

The table below summarizes the number of reports issued, by type, for each of the state agencies and local governments we audit. Many reports are accompanied by report highlights, which summarize the results and conclusions of our audits and reviews. All of our reports can be accessed from our Web site.

**Number of Reports Issued
by Type of Report and Government**

Type of Report	State Agencies	Universities	Counties	Cities	Community Colleges	School Districts
Performance audit	13					4
Sunset audit	11					
Audit follow-up letter	38					14
Special legislative report/study	3					2
Information brief	1					
Financial statement audit	6	3	13		7	
Single audit	1		6		6	
Special investigation				1		
Management letter	15	3	12		4	
Procedural review letter	19	1				
Compliance review						17
Status review						3
Agreed-upon procedures report			3			
Expenditure limitation			7		7	
Other special reports	5	1			3	

Auditor General Activities Positively Impact State and Local Governments

We are committed to making a difference in the way state and local governments operate. We accomplish this through our audit and oversight activities by providing impartial, objective information in our reports or at briefings and hearings, and technical assistance to the state and local governments. All of these activities focus on helping state agencies and local governments to improve their accountability.

Our audit results and oversight activities provide recommendations to state agencies and local governments, which give guidance on improving an agency's operations. For example, our performance audit of the Department of Transportation's Motor Vehicle Division found that the Division's two major computer systems contain sensitive information that thousands of state and local agencies' employees can access when performing their law enforcement or other functions. As a result, those people have access to confidential information such as citizens' names, addresses, and social security numbers. Ensuring system security, then, becomes of utmost importance. Accordingly, the recommendations in our audit report identified how the Motor Vehicle Division could improve its information system security to address these issues.

Another example is our study of the structure, funding, and courses of two joint technological education districts (JTED). The analysis included both the state-wide educational and fiscal impact. Our analysis and recommendations resulted in legislative changes to clarify the type and level of classes that may be included for JTED funding; to establish restrictions on supplanting base year vocational education spending with JTED funding, including requiring our Office to provide guidance to districts; and to

create a task force to evaluate and make specific recommendations regarding state and local funding and governance issues.

One of our newest activities that demonstrates how our work positively impacts government operations is our new Child Protective Services audit team. In addition to providing traditional audit reports, our Office also issues information briefs about Child Protective Services that are designed to give legislators timely and useful information on topics of particular interest when an audit is not necessary. For example, our first information brief explained the Department of Economic Security's submission of a federal IV-E waiver demonstration project proposal to the U.S. Department of Health and Human Services to

Results of Audit Work

- School districts implemented or were in the process of implementing 98 percent of our performance audit recommendations
- State agencies implemented or were in the process of implementing 93 percent of our performance audit recommendations
- 83 percent of school districts corrected deficiencies sufficiently to comply with the *Uniform System of Financial Records*
- The Legislature implemented 50 percent of our performance audit recommendations
- State and local governments implemented 31 percent of our single audit recommendations
- Single audits identified nearly \$3.7 million in federal grant monies that state and local governments spent in violation of federal grant provisions
- School district performance audits identified a \$28,000 contract overpayment and over \$500,000 spent for an accounting system replaced 1 year later
- Special investigations found that over \$47,000 was stolen from a local government
- Provided technical assistance to other agencies, universities, counties, cities, community college districts, and school districts about financial reporting, compliance, and other matters

TO OBTAIN MORE INFORMATION

Or to obtain copies of
our reports, call
(602) 553-0333



or visit
our Web site at:
www.azauditor.gov

allow more flexible use of federal funds and to expedite family reunification.

One measure of our success is how many of our recommendations are implemented. During fiscal year 2005, state agencies and school districts implemented over 93 percent and 98 percent, respectively, of our performance audit recommendations. Local governments are also addressing our USFR compliance and single audit recommendations for improving their accountability.

Another way our Office makes a difference is by helping state agencies and local governments implement new accounting requirements and establish practices that improve operations and compliance with laws. For example, our Office issued five budget preparation packages and three annual report preparation packages to counties, cities and towns, community college districts, school districts, and charter schools. These preparation packages provide guidance that helps these local governments implement annual budgeting and financial reporting requirements to comply with Arizona law.

Auditor General Staff Has Excellent Reputation in Government Auditing

Our staff's achievements and activities demonstrate their commitment to leadership in the government auditing field. We have an excellent national reputation among state audit organizations, including recognition for the quality of our work and involvement in professional organizations.

One example is the National Legislative Program Evaluation Society (NLPES) presenting its Excellence in Research Methods

Award to our Office in fiscal year 2005 for our audit report, *Behavioral Health Services Funding for Adults with Serious Mental Illness*. This award was presented to us for using innovative research methods to answer audit objectives, explain the methods in the audit report, and interpret the research results for the reader. This award acknowledges our Office's efforts to produce meaningful and useful audit reports to the Legislature.

Our staff's expertise, energy, and enthusiasm draw attention in other ways, too. Numerous employees participate in professional organizations in various capacities, such as national, state, and local organizations at the board, executive, committee, task force, and conference levels. They are involved in standards-setting, oversight and monitoring, best-practices sharing, and training activities. As individuals, and cumulatively as an audit organization, this has helped to establish our Office as one of the premier state audit organizations in the country.

National Awards and Recognition

- Received NLPES Excellence in Research Methods Award for audit performed on the use of funding for adults with serious mental illness
- Numerous staff actively participate in national, state, and local professional accountability organizations
- Gave 22 presentations to numerous professional organizations and local governments, providing technical assistance and education

Annual Report of the Office of the Auditor General

YEAR ENDED JUNE 30, 2005